

# WYOMING LENDER ALERT

December 2008

## U.S. Small Business Administration

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## IN AN EFFORT TO HELP SMALL BUSINESSES, SBA ENCOURAGES LOAN DEFERMENT RELIEF

In response to the financial crisis, the U.S. Small Business Administration announced authorization for lenders to work with business borrowers in providing them with the flexibility they need to keep their businesses running during these difficult economic times.

As access to credit and capital has tightened, many businesses face increased challenges in meeting financial obligations. This is especially true of small businesses hit hard by the recent economic slowdown that are now unable to make payroll, or purchase essential inventory.

Participating lenders now have the authority, on a

temporary payment relief for qualifying borrowers with 7(a) and 504 loans who are struggling to make their payments.

"The SBA is here to help small businesses during these difficult economic times. We encourage lenders to follow suit by extending three-month payment deferments on SBA guaranteed loans to qualified borrowers who need relief," said Wyoming SBA District Director, Steven Despain. "We recognize that small business owners are faced with challenging decisions right now. By providing three-month deferments to qualifying borrowers who are struggling, lenders can help small business owners free up the capital they

need to maintain their businesses."

If a deferment longer than three consecutive monthly payments is needed for a loan lenders should work closely with the SBA to identify the best solution.

At the same time, the SBA is asking lenders not to broadly call borrower loans due to changing financial variables, such as fluctuations in personal credit scores, declining collateral values, and reduced home equity, which are currently affected by the disruption in the financial markets. SBA encourages lenders to look at these cases individually and to work with individual borrowers in order to facilitate the longer term success of these small businesses.

## IRS'S JANUARY 13TH TAX TALK TODAY PROGRAM

The 2009 filing season is right around the corner. The IRS's January Tax Talk Today (TTT) program, "Getting Ready for Filing Season 2009", on Tuesday, January 13, 2008 at 2 P.M., gives small business people a head start with a special, 100 minute program.

Tune in to this extended

program to hear TTT panelists discuss updates to forms, the latest tax law changes, common errors to avoid, and IRS processing issues that will assist you in preparing your 2008 business returns.

To access the Web cast at no charge, viewers can register online at TTT: Welcome at:

[www.taxtalktoday.com](http://www.taxtalktoday.com)

They can view TTT with Windows Media Player and Real Player. If you need to install them, click the link for Installing System Software to view Internet Broadcast under "How to View" at:

[www.taxtalktoday.tv/index.cfm?page=8.2114](http://www.taxtalktoday.tv/index.cfm?page=8.2114)

## SBA USES TECHNOLOGY TO INCREASE RESPONSES AND EFFECTIVENESS OF 8(a) APPLICATION AND ANNUAL REVIEW PROCESS

On October 1, 2008, the U.S. Small Business Administration launched its new electronic 8(a) Application and Annual Review System known as the Business Development Management Information System or BDMIS.

For years small disadvantaged firms have had to submit a longer and more involved paper application to SBA for review and acceptance into the 8(a) program, a program intended to help small disadvantaged firms through the development of their business and assistance with building sales through government contracting. Once accepted into the program, the firms had to report annually using another manual (paper) process that generally required duplicate submission and entry of general information.

The BDMIS is designed to take the tedium of redundant entries out of the 8(a) application and annual review process. Once the appropriate application information is completed and submitted, the business does not enter the information again unless or until they have changes in the business which requires an update for the annual review.

Currently BDMIS only allows individual 8(a) firms to apply using the electronic application. Tribally owned firms and Alaskan Native Corporations must still apply by hard copy. Additionally, federal law still requires "inked" signatures for applications and annual reviews, so signed hard copies must still be supplied. However, to accomplish this, after the

initial information has been entered, an 8(a) applicant or participant need only enter the BDMIS program, update information, and then print the forms. There is no need to refile the documents.

The BDMIS, while still quite simple, is being heralded as a major step by SBA to make the 8(a) program much easier and less paper dependent.

You can find more information on the 8(a) the application process and federal contracting by going to the Wyoming District Office, SBA website at [www.sba.gov/wy](http://www.sba.gov/wy) then under Resources click on 8(a) Business Development Program or you can contact Steve Parker at 307 261-6506 or Deb Farris at 307 261-6510.

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## SBA EMERGENCY ECONOMY ACTIONS

Small business drives the U.S. economy and in the current environment SBA must continue work to ensure that small businesses have access to credit. As a result, SBA is issuing an interim final rule adding an additional base rate option, the London Interbank Offered Rate (LIBOR) for new loans and adding flexibility to the secondary mar-

ket for SBA guaranteed loans through Weighted Average Coupon (WAC) pools.

These program changes will help get capital to small businesses. SBA leaders have heard from small businesses and lending partners that have been hurt by the "freezing" of the secondary market. This feedback has helped

identify issues that are slowing down the flow of capital and to find solutions that will help make credit more available. With SBA backed loans lenders will have more flexibility to make loans to small business.

Usually, LIBOR and prime rate track very closely together, with about a 300 basis point difference be-

*Merry Christmas  
Happy New Year*

tween the rates. In the past 60 days, the prime rate has actually decreased while LIBOR has increased. Generally interest rate decreases make capital less expensive and help generate demand. This time, the mismatch between the rates is squeezing lenders out of the lending market, because their costs are based on LIBOR.

Since this squeeze is reducing small business access to capital, SBA had to address the issue quickly by allowing lenders the option of using the LIBOR rate as an additional base rate for new SBA loans. Lenders should be able to resume getting small businesses the capital they need.

Another issue in current economic conditions is liquidity – or the ability to quickly convert assets into cash without taking a price hit. At the same time lending is becoming more expensive, the secondary market for SBA guaranteed loans is slowing down.

Recent disruptions in the financial markets have made the secondary market a less profitable option for both investors and lenders. The mismatch between cost of funds (based on LIBOR) and SBA loan interest rates (based on Prime) led to less loans being made and less de-

mand for those loans from investors.

Together, this means a market of less supply and demand. Investors aren't buying at premium levels and lenders aren't willing to sell their loans at the lower prices offered by investors. Typical secondary market premiums in 2007 were 108 and are down to 101. Selling loans is not profitable, so activity on the secondary market has tightened.

The demand for pools of SBA loans is down and premiums for loans are declining. Previously, loans in a specific pool had to have the same interest rate. With this change, SBA is allowing a new kind of pool, WAC pools, to be assembled and sold on the secondary market for SBA-guaranteed loans. For these pools, the coupon rate changes based on the weighted average interest of all loans in the pool.

Allowing greater flexibility in the loan pool structure can help affect profitability and liquidity in the secondary market for SBA guaranteed loans. WAC pools can help expand this secondary market by generating savings for assemblers and providing higher premiums for lenders. Because the average interest rate is used, these pools are easier for assemblers to create and produce

incentives for more investors to bid on these loans.

This will help make SBA guaranteed loans a better source of liquidity for lenders. And, if lenders quickly sell to the secondary market, they will free up additional capital that can be used for small business lending.

These changes will work in several ways:

- Capital will be more available: Both changes will help open the capital door for small business.
- Good, short term and long term, policies: Both LIBOR and WAC pool changes have been well thought out and will benefit programs to help small business.
- Immediately effective: These changes were published quickly in an effort of address immediate problems facing today's market.
- SBA is taking input on the new changes. Send your comments on the Federal eRulemaking Portal:
- [www.regulations.gov](http://www.regulations.gov) or by contacting the Wyoming District Office at 307-261-6500. All comments will be posted on: [www.regulations.gov](http://www.regulations.gov) and will be considered by SBA.

***We are still  
accepting Small  
Business Week  
Nominations***

*Contact Sharon Nichols*

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## CALENDAR OF EVENTS

Dec 3 Women's Round-table, Casper

Dec 4 Women's Round-table, Laramie

Dec 17 Women's Round-table, Wheatland